

Message Text

UNCLASSIFIED

PAGE 01 BERN 03223 051412Z

44

ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /107 W

----- 083647

R 051010Z AUG 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1116

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS BERN 3223

DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF JULY 27

- AUGUST 2

1. SUMMARY: NEWS OF THE US TRADE SURPLUS IN JUNE PUSHED THE DOLLAR TO A NEW HIGH FOR THE YEAR, BUT THE SF CONTINUES TO BE STRONG AGAINST THE DM. THE MONEY MARKET WAS STILL VERY LIQUID THIS WEEK. THE FEDERAL COUNCIL HAS ASKED PARLIAMENT FOR A FIVE YEAR EXTENSION OF THE 1972 EMERGENCY DECREE ON CREDIT. WITHOUT THE AUTHORITY CONTAINED IN THIS DECREE, THE GOVERNMENT AND THE SWISS NATIONAL BANK (SNB) HAVE VIRTUALLY NO POWER TO IMPLEMENT AN EFFECTIVE MONETARY POLICY. THE LOW CONFIDENCE OF SWISS CONSUMERS WAS REFLECTED

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 03223 051412Z

IN A SHARP DROP IN RETAIL SALES IN JUNE.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: NEWS OF THE US TRADE SURPLUS IN JUNE INCREASED THE DEMAND FOR DOLLARS AND THE SPOT RATE CONTINUED ITS UPWARD MOVEMENT TO REACH A NEW HIGH FOR THE YEAR OF SF 2.7150 DURING THE DAY ON JULY 31 (THE FOREIGN MARKET WAS CLOSED FOR SWISS NATIONAL DAY ON AUGUST 1). ALTHOUGH THE SF WENT DOWN AGAINST THE DOLLAR, IT IS STILL SHOWING CONSIDERABLE STRENGTH AGAINST THE DM, MUCH TO THE DISMAY OF THE SNB. GOLD TRADING WAS ACTIVE AND PRICES ROSE \$2 PER ONCE. RATES AS FOLLOWS:

	7/28 (OPEN)	7/31 (CLOSE)
SPOT DOLLAR	SF 2.6620	SF 2.7125
DISCOUNTS		
ONE MONTH	- 2.7	- 2.9
3 MONTHS	- 2.8	- 2.7
6 MONTHS	- 2.8	- 2.6
SF/IM	SF 105.43	SF 104.85
GOLD	\$164.50	\$166.50

3. MONEY AND CAPITAL MARKETS: THE MONEY MARKET WAS VERY LIQUID AND THE CALL MONEY RATE WAS A NOMINAL 0.5 PERCENT ALL WEEK. END-OF-MONTH FUNDS WERE AVAILABLE AT 6.0 PERCENT. TURNOVER IN THE STOCK MARKETS WAS NORMAL FOR THE QUIET HOLIDAY SEASON AND PRICES WERE RELATIVELY STEADY; THE SKA INDEX WAS 189.1 (END 1959 EQUALS 100) ON JULY 31, VIRTUALLY UNCHANGED FROM THE 189.3 REGISTERED P THE PREVIOUS FRIDAY. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS EASED LOWER FROM 6.45 PERCENT ON JULY 25 TO 6.43 PERCENT ON JULY 31.

4. EXTENSION OF CREDIT DECREE: THE FEDERAL COUNCIL HAS SENT A MESSAGE TO PARLIAMENT REQUESTING A FIVE YEAR EXTENSION OF THE EMERGENCY DECREE OF DECEMBER 20, 1972, WHICH GIVES THE GOVERNMENT AND SNB AUTHORITY TO SET MINIMUM RESERVE REQUIREMENTS AGAINST DOMESTIC AND FOREIGN BANK LIABILITIES, TO LIMIT THE EXPANSION OF BANK CREDIT, UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 03223 051412Z

TO CONTROL NEW CAPITAL MARKET ISSUES, AND TO REGULATE CONSUMER CREDIT. THE FEDERAL COUNCIL'S MESSAGE PROPOSES SOME MINOR MODIFICATIONS OF THE 1972 DECREE WHICH IS DUE TO EXPIRE AT THE END OF THIS YEAR. THE DECREE WAS ORIGINALLY ISSUED AS AN ANTI-INFLATION MEASURE AND FORMED THE BACKBONE OF THE GOS' PROGRAM TO HOLD DOWN THE RISE IN THE COST OF LIVING. WITH THE ADVENT OF THE CURRENT RECESSION, THE CEILING ON CREDIT EXPANSION WAS DROPPED, AND THE RESTRICTIONS

ON MINIMUM RESERVES, NEW CAPITAL MARKET ISSUES, AND CONSUMER CREDIT WERE GREATLY EASED. THE GOS, HOWEVER, WISHES TO RETAIN ITS PRESENT AUTHORITY UNDER THE DECREE IN ORDER TO FIGHT BOTH RECESSION AND INFLATION. THE ABILITY TO ADJUST MINIMUM RESERVE REQUIREMENTS GIVES THE GOS A FLEXIBLE INSTRUMENT OF MONETARY POLICY NEEDED TO HELP OFFSET THE DOMESTIC LIQUIDITY CREATED BY THE NSB'S INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET. THE POWER TO CONTROL NEW CAPITAL MARKET ISSUES IS NEEDED TO REGULATE DOMESTIC INTEREST RATES AS APART OF THE POLICY TO RESTRAIN UNWANTED INFLOWS OF INTEREST SENSITIVE CAPITAL. THE GOS ALSO WANTS TO RETAIN THE AUTHORITY TO REINSTITUTE CREDIT CONTROLS TO PREVENT A RESURGENCE OF INFLATION. WITHOUT THESE POWERS, THE GOS AND THE SNB ARE VIRTUALLY WITHOUT ANY INSTRUMENT TO IMPLEMENT AN EFFECTIVE MONETARY POLICY. THE PARLIAMENT IS EXPECTED TO GRANT THE EXTENSION WITHOUT ANY SERIOUS OPPOSITION. WITHIN THE LIFE OF THE REQUESTED EXTENSION, THE GOS HOPES TO INCORPORATE THESE POWERS IN AN AMENDED NATIONAL BANK LAW.

ECONOMIC

5. RETAIL TRADE DECLINES IN JUNE: THE VALUE OF RETAIL TRADE TURNOVER IN JUNE WAS 5.4 PERCENT LESS THAN IN JUNE 1974 WHICH IS THE LARGEST YEAR-TO-YEAR DROP REGISTERED SO FAR THIS YEAR. TAKING INFLATION INTO ACCOUNT, THE REAL DECLINE IN RETAIL TRADE WAS 11.6 PERCENT. CONSUMER DURABLE GOODS SHOWED THE SHARPEST DROP.
ODELL

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BERN03223
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750270-0037
From: BERN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750879/aaaacrox.tel
Line Count: 145
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: hartledg
Review Comment: n/a
Review Content Flags:
Review Date: 12 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 FEB 2003 by ReddocGW>; APPROVED <06 FEB 2004 by hartledg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF JULY 27 - AUGUST 2
TAGS: EFIN, ECON, SZ
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006